

VZCZCXYZ0034
RR RUEHWEB

DE RUEHVB #0729/01 1641357
ZNR UUUUU ZZH
R 131357Z JUN 06
FM AMEMBASSY ZAGREB
TO RUEHC/SECSTATE WASHDC 6291
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS ZAGREB 000729

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REFTEL: ZAGREB 266

E.O. 12958: N/A
TAGS: [ENRG](#) [SENV](#) [HR](#)
SUBJECT: CROATIA EYES REGIONAL ENERGY MARKET

¶11. (SBU) Summary: Croatia currently covers 46 percent of its overall energy needs from domestic sources. However, the GOC predicts that by 2030 it will only be able to cover 30 percent or less if no other investments are made into the energy sector. Croatia is now engaged in several regional initiatives that will benefit its own energy needs and give it a foothold in the larger European energy market. End Summary.

Pan European Pipeline

¶12. (SBU) Zeljko Tomsic, Assistant Minister for Energy and Mining in the Croatian Ministry of Economy, blamed Slovenia for stalling the Pan European Pipeline (PEOP) project when its representative failed to show for the March 22 meeting of the Interstate Committee in Trieste. The three original members of the committee (Croatia, Serbia and Romania) were to sign a memorandum of understanding allowing Italy and Slovenia to join and to establish a project development company that would invest 10 million euros for a project feasibility study. Slovenia invoked environmental concerns, but Tomsic said he suspects the motivation for the pullout was more likely political and economic. He said the other countries were willing to address Slovenia's environmental concerns, but are also considering an alternate route that would bypass Slovenia.

¶13. (SBU) Another meeting of the Interstate Committee was scheduled for June 12 at which time Croatia was expected to transfer the presidency to Italy. Tomsic said Italy is in a better position to press Slovenia into cooperating as well as to demonstrate the importance of the project to Europe. Tomsic said Richard Ennis, of the NY office of ING Bank, was invited to the meeting to discuss potential US investors.

¶14. (SBU) JANAF, the Croatian pipeline transmission company, has already offered to invest 2 million euro in the feasibility study. The company has an interest in contributing to the project to ensure its future profitability.

Liquified Natural Gas (LNG)

15. (SBU) Adria LNG Study Company (ALSCo), a consortium of international companies, is privately funding a potential LNG pipeline project. The intent is to build a LNG terminal at Omisalj on the island of Krk in the Northern Adriatic with a pipeline to supply Italy and Europe. Currently ALSCo is solidifying its shareholder structure, updating a feasibility study and preparing an environmental impact study. Tomsic called the projected 2011 completion of the LNG project ambitious.

16. (SBU) The consortium includes original and new members: Total (France), OMV Gas (Austria), INA (Croatia), RWE Transgas (Germany), Geoplin (Slovenia) and EON Ruhrgas (Germany). INA CEO Tomislav Dragicevic said HEP is likely to be accepted into the consortium after INA offered some of its shares.

Nuclear Power

17. (SBU) Plans for building another power plant in Krsko (Slovenia) had been on the back burner but Croatian and Slovenian officials are once again considering the project as a means of meeting increasing power demands. However, Slovenia is expected to insist on majority control of any new facility, Tomsic said. Meanwhile, legal experts are split over whether a ban on development of nuclear power in Croatia, adopted by Parliament as part of its urban development plan, is actually a law.

Wind Energy

18. (SBU) A wind farm close to Sibenik on the Dalmatian coast is scheduled for completion by the end of June 2006 and six more wind farms are under construction. Tomsic said there is considerable interest among developers, adding that the government is reviewing its laws and tariffs on developing and operating renewable energy sources. One recent decision prohibits construction of wind farms on islands or within 1 kilometer of the coast. He said the government, however, has been too busy with EU regulations to spend time needed on developing other renewable sources of energy.

Electricity

19. (SBU) Tomsic traveled to the US in April with Tomo Galic, chairman of the Croatian Energy Regulatory Authority (HERA); three executives from HEP including HEP CEO Ivan Mravak; Leo Prelec, the CEO of the Croatian Market Operator (HROTE); and five managers of HEP transmission System Operator. During that visit, Tomsic said he was asked to give a briefing on power and energy policies in Croatia. He is preparing for a return trip in July, as well as accompanying Minister Vukelic in June.

10. (SBU) HEP continues to work with USAID to transition from a monopolistic national power utility to a regulated market model utility, according to EU standards. This includes working with the Croatian Energy Regulatory Agency (HERA), HEP and the Ministry of Economy on legislation, licensing procedures, public service obligations, tariffs, data collection and grid codes. Another

existing Regulatory Partnership exchange - the NY Public Service Commission and the Croatian Energy Regulatory Agency - is scheduled for early July.

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